

**Flat River Community Library
Greenville, Michigan**

FINANCIAL STATEMENTS

June 30, 2008

Flat River Community Library

Greenville, Michigan

June 30, 2008

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Flat River Community Library

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Trustees
Flat River Community Library
Greenville, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining funds information of the Flat River Community Library as of and for the year ended June 30, 2008, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Flat River Community Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining funds information of the Flat River Community Library as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 17, 2008

Flat River Community Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2008

As management of Flat River Community Library, we offer this discussion and analysis of the activities of the Library for the year ended June 30, 2008.

The discussion and analysis of financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the Library's financial statements, which will immediately follow this section.

Financial Highlights

The following represent the most significant financial highlights for the year ending June 30, 2008:

- The assets of the Library exceeded its liabilities at the end of the fiscal year by \$2,530,531 (net assets) at the government-wide level.
- The Library's total net assets increased by \$45,332 as a result of current year activity at the government-wide level.
- At the close of the fiscal year, the Library's governmental funds reported a combined fund balance of \$1,098,104.
- State aid was lower than anticipated due to state budget reductions, but penal fines and interest income were slightly higher than anticipated due to the state and national economies.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Flat River Community Library as a whole and present a longer-term view of the Library's finances.

The fund financial statements present a short-term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Library in more detail than the government-wide financial statements by providing information about the Library's most significant funds.

The Library as a Whole

The following table shows, in a condensed comparative format, the net assets as of June 30, 2007 and 2008.

	<u>2007</u>	<u>2008</u>
Assets		
Current assets	\$ 985,072	\$ 1,120,666
Capital assets	<u>2,869,863</u>	<u>2,731,290</u>
Total assets	3,854,460	3,851,595
Liabilities		
Current liabilities	128,784	145,894
Noncurrent liabilities	<u>1,243,379</u>	<u>1,175,531</u>
Total liabilities	<u>1,372,163</u>	<u>1,321,425</u>

Flat River Community Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2008

The Library as a Whole - continued

	<u>2007</u>	<u>2008</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 1,544,863	\$ 1,476,290
Restricted for debt service	151,485	150,495
Unrestricted	<u>786,424</u>	<u>903,746</u>
Total net assets	<u>\$ 2,482,772</u>	<u>\$ 2,530,531</u>

As previously stated, the total net assets of the Flat River Community Library at the end of this fiscal year were \$2,530,531.

The following table shows the changes in net assets in a comparative format for the years ending June 30, 2007 and June 30, 2008, respectively.

	<u>2007</u>	<u>2008</u>
Revenues		
General revenue:		
Property taxes	\$ 674,928	\$ 688,181
State Aid	12,814	20,211
Penal Fines	113,599	120,380
Interest	27,429	18,577
Miscellaneous	3,089	864
Program Revenue:		
Charges for service	25,056	27,416
Operating grants and contributions	<u>46,542</u>	<u>17,717</u>
Total revenues	903,457	893,346
Program Expenses		
Library services/operations	778,653	754,596
Interest on long-term debt	<u>71,803</u>	<u>93,418</u>
Total expenses	<u>850,456</u>	<u>848,014</u>
Change in Net Assets	<u>\$ 53,001</u>	<u>\$ 45,332</u>

Governmental Activities

The Library's governmental revenues totaled \$893,346 with the greatest revenue being property taxes levied by the library and the County. Property taxes make up approximately 77 percent of total governmental revenue. The Property Tax revenue increased 2.0 percent primarily due to increased taxable values.

The Library incurred expenses of \$848,014 during the year. As a special purpose government, all of the governmental expenses incurred are associated with the library service function, with the exception of interest expense incurred on long-term debt.

Flat River Community Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2008

The Library's Funds

The analysis of the Library's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the specific funds, not the Library as a whole. The Flat River Community Library's Board of Trustees may create funds to help manage money for specific purposes as well as to show accountability for certain activities.

The Library maintains four governmental funds. Information is presented in the governmental funds balance sheet and in the government funds statement of revenues, expenditures, and changes in fund balances for the Library. The General Fund, Debt Service Fund, and Capital Projects Fund are major funds for the fiscal year ended June 30, 2008 for financial reporting purposes as defined by GASB Statement No. 34.

The General Fund pays for the Library's governmental services. The sole service provided during the fiscal year was library services, which incurred expenditures of \$601,922 for the fiscal year. The Debt Service Fund pays the principal and interest as it becomes due for the Library's General Obligation Bonds payable. Total debt service for the fiscal year was \$173,482. The Capital Projects Fund is used to account for the financial resources that are used for capital maintenance of the Library. The Capital Projects Fund did not incur expenditures in this fiscal year.

The basic governmental fund financial statements can be found on pages 3 through 7 of this report.

General Fund Budgetary Highlights

The Library adopts an annual budget for the General Fund. A budgetary comparison statement has been provided as required supplementary information to demonstrate compliance with this budget.

Penal fines were approximately \$20,380 higher than anticipated for the fiscal year. Similarly, contributions revenue was more than \$2,000 higher than anticipated. Although the fund expenditure budget increased from the original budget by approximately \$5,000, the final budget exceeded actual expenditures by \$4,886.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$2,730,929 invested in buildings and improvements, equipment and furniture, and books, periodicals, and videos (net of accumulated depreciation). There were no additions to capital assets for the fiscal year ended June 30, 2008.

At the end of the current fiscal year, Flat River Community Library had total bonded debt of \$1,255,000. In the current year the Library refunded \$1,135,000 of the 1997 G.O. Bonds, issuing the 2008 bonds of \$1,155,000. Flat River Community Library's total debt, including amounts owed to employees for sick and vacation, decreased by \$83,827 during the current fiscal year.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers and library users with a general overview of the Library's finances and demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Library Director at 200 West Judd Street, Greenville, Michigan 48838. Phone: 616-754-6359.

BASIC FINANCIAL STATEMENTS

Flat River Community Library
STATEMENT OF NET ASSETS

June 30, 2008

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 757,734
Investments	166,531
Assets held by foundation	64,858
Accounts receivable	600
Due from other governmental units	127,934
Accrued interest receivable	<u>3,009</u>
Total current assets	1,120,666
Noncurrent assets	
Capital assets, net	<u>2,731,290</u>
TOTAL ASSETS	3,851,956
LIABILITIES	
Current liabilities	
Accounts payable	10,375
Accrued liabilities	12,187
Accrued interest	19,045
Current portion of compensated absences	2,517
Current portion of long-term debt	<u>101,770</u>
Total current liabilities	145,894
Noncurrent liabilities	
Noncurrent portion of compensated absences	22,301
Noncurrent portion of long-term debt	<u>1,153,230</u>
Total noncurrent liabilities	<u>1,175,531</u>
TOTAL LIABILITIES	<u>1,321,425</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,476,290
Restricted for debt service	150,495
Unrestricted	<u>903,746</u>
TOTAL NET ASSETS	<u><u>\$ 2,530,531</u></u>

See accompanying notes to financial statements.

Flat River Community Library

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Recreation and cultural	\$ 754,596	\$ 27,416	\$ 17,717	\$ (709,463)
Interest on long-term debt	93,418	-	-	(93,418)
	<u>\$ 848,014</u>	<u>\$ 27,416</u>	<u>\$ 17,717</u>	(802,881)
General revenues:				
Property taxes				688,181
State aid				20,210
Penal fines				120,380
Investment earnings				18,577
Miscellaneous				<u>865</u>
TOTAL GENERAL REVENUES				<u>848,213</u>
CHANGE IN NET ASSETS				45,332
Restated net assets, beginning of year				<u>2,485,199</u>
Net assets, end of year				<u>\$ 2,530,531</u>

See accompanying notes to financial statements.

Flat River Community Library

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2008

	General	Debt Service	Capital Projects
ASSETS			
Cash and cash equivalents	\$ 674,558	\$ -	\$ 83,176
Investments	-	166,531	-
Assets held by foundation	-	-	-
Accounts receivable	-	-	600
Due from other governmental units	127,934	-	-
Accrued interest receivable	-	3,009	-
Due from other funds	8,735	-	-
TOTAL ASSETS	\$ 811,227	\$ 169,540	\$ 83,776
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 10,375	\$ -	\$ -
Accrued liabilities	12,187	-	-
Due to other funds	-	-	7,391
TOTAL LIABILITIES	22,562	-0-	7,391
FUND BALANCES			
Reserved			
Debt service	-	169,540	-
Book purchases	1,295	-	-
Friends fund	419	-	-
Compensated absences	16,835	-	-
Unreserved			
Undesignated, reported in			
General fund	770,116	-	-
Special revenue fund	-	-	-
Capital projects fund	-	-	76,385
TOTAL FUND BALANCES	788,665	169,540	76,385
TOTAL LIABILITIES AND FUND BALANCES	\$ 811,227	\$ 169,540	\$ 83,776

See accompanying notes to financial statements.

Nonmajor Governmental Fund	Total Governmental Funds
Memorial Book	
\$ -	\$ 757,734
-	166,531
64,858	64,858
-	600
-	127,934
-	3,009
-	8,735
<u>\$ 64,858</u>	<u>\$ 1,129,401</u>
\$ -	\$ 10,375
-	12,187
1,344	8,735
1,344	31,297
-	169,540
-	1,295
-	419
-	16,835
-	770,116
63,514	63,514
-	76,385
63,514	1,098,104
<u>\$ 64,858</u>	<u>\$ 1,129,401</u>

Flat River Community Library

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2008

Total fund balance - governmental funds \$ 1,098,104

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 4,736,144	
Accumulated depreciation is	<u>(2,004,854)</u>	
Capital assets, net		2,731,290

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Direct obligations	1,255,000	
Accrued interest payable	19,045	
Compensated absences	<u>24,818</u>	
		<u>(1,298,863)</u>

Net assets of governmental activities \$ 2,530,531

See accompanying notes to financial statements.

Flat River Community Library

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	General	Debt Service	Capital Projects
REVENUES			
Property taxes	\$ 532,396	\$ 155,785	\$ -
Intergovernmental	20,210	-	-
Fines and forfeits	147,321	-	-
Interest	8,468	6,643	3,466
Charges for service	475	-	-
Other			
Contributions	16,443	-	-
Other	864	-	-
TOTAL REVENUES	726,177	162,428	3,466
EXPENDITURES			
Current			
Recreation and cultural	601,922	-	-
Debt service	-	173,482	-
TOTAL EXPENDITURES	601,922	173,482	-0-
TOTAL REVENUES OVER (UNDER) EXPENDITURES	124,255	(11,054)	3,466
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	1,155,000	-
Payment to escrow agent	-	(1,137,303)	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	17,697	-0-
NET CHANGE IN FUND BALANCES	124,255	6,643	3,466
Fund balances, beginning of year	669,188	162,897	72,919
Prior period adjustment	(4,778)	-	-
Fund balances, end of year	\$ 788,665	\$ 169,540	\$ 76,385

See accompanying notes to financial statements.

Nonmajor Governmental Fund Memorial Book	Total Governmental Funds
\$ -	\$ 688,181
-	20,210
-	147,321
-	18,577
-	475
1,275	17,718
-	864
1,275	893,346
4,796	606,718
-	173,482
4,796	780,200
(3,521)	113,146
-	1,155,000
-	(1,137,303)
-0-	17,697
(3,521)	130,843
67,035	972,039
-	(4,778)
<u>\$ 63,514</u>	<u>\$ 1,098,104</u>

Flat River Community Library

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Net change in fund balances - total governmental funds **\$ 130,843**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense (145,778)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. Also, governmental funds report the effect of the difference between the carrying amount of defeased debt and its reacquisition price when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. In the current year, these amounts consist of:

Bond principal retirement	\$ 1,225,000	
Bond proceeds	(1,155,000)	

Excess of principal retirement over debt proceeds		70,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable	(7,633)	
(Increase) in accrued compensated absences	(2,100)	
		(9,733)

Change in net assets of governmental activities		\$ 45,332
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See accompanying notes to financial statements.

Flat River Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Under Public Act 24 of 1989, the City of Greenville, and the Townships of Fairplain, Eureka, and Montcalm created the Flat River Community Library on October 29, 1996, which is considered a District Library. Public Act 24 defines the Library's legal status as "an Authority under Section 6 of Article IX of the State Constitution of 1963" thereby classifying the Library as a Michigan Municipal Corporation. The City and Townships collect and distribute property taxes that are levied by the Library. In addition, Montcalm County collects and distributes countywide taxes to the seven (7) District Libraries of the County. The Library has no stockholders, and all monies received are to be used for certain specified purposes in accordance with the by-laws of the Library.

The governing body of the Library is a board which is comprised of eight (8) members, two (2) appointed by the City of Greenville, two (2) appointed by the Township of Fairplain, two (2) appointed by the Township of Eureka, and two (2) appointed by the Township of Montcalm.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Flat River Community Library (primary government). The Library has no activities that would be classified as component units.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole. Interfund activity has been eliminated in the preparation of these statements.

The statement of activities presents the direct functional expenses of the Library and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Library's individual major funds and aggregated nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The major funds of the Library are:

- a. The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library except for those that are required to be accounted for in another fund.
- b. The Debt Service Fund is used to account for the financial resources that are used for the retirement of long-term debt.
- c. The Capital Project Fund is used to account for the financial resources that are used for capital maintenance of the Library.

Flat River Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
CONTINUED**

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements used the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Library before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenses.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities in the current period. Revenues susceptible to accrual include property taxes, and state aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

5. Budgets and Budgetary Accounting

The General Fund budget shown as required supplementary information was prepared on a basis consistent with U.S. generally accepted accounting principles and the basis used to reflect actual results. The Library employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Library Director prepares the proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to incurring significant expenditures, the budget is legally enacted through Library Board action.
- c. The budget is legally adopted at the total expenditure account level and maintained at the account level.
- d. Budgeted amounts are reported as originally adopted or amended by the Library Board during the year.

Flat River Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of a checking account and certificates of deposit. All certificates are stated at cost, which approximates fair value. Cash equivalents consist of certificates of deposit with an original maturity date of 90 days or less.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase.

7. Property Taxes

The participating City, Townships, and Montcalm County levy and collect property taxes for the Library. As the Library tax is collected it is remitted by the City and Township Treasurers. At March 1 each year the City and Townships settle their respective delinquent taxes with the County Treasurer and the unpaid real property tax is remitted to the Library by the County Treasurer in Montcalm County. Near the end of the fiscal year the County remits the Library's portion of the countywide levy of .4407 mills. Delinquent personal property taxes are retained by the Treasurers for subsequent collection. The Library is permitted by state statute to levy up to \$4 per \$1,000 of assessed valuation on property within the Library. The voters approved a levy of 1 mill, 0.6778 mills for operating, and 0.3222 mills for debt. For the year ended June 30, 2008, the Library levied 1 mill in addition to the countywide levy.

8. Capital Assets

Capital assets include buildings and additions, equipment and furniture, and books, periodicals, and videos, and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. In fiscal year 2005, the Library decided to discontinue capitalizing its collection of books, periodicals, and videos but will continue to depreciate the collection items previously capitalized. Capital assets are those with a cost greater than \$1,500 and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Books, periodicals, and videos	10 years
Equipment and furniture	3 - 20 years
Buildings and additions	40 years

9. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

Flat River Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Compensated Absences

Library employees are granted vacation and sick leave in varying amounts based on length of service. Vacation must be used by December 31 or it is forfeited. Employees can accumulate up to 120 sick days. Accumulations in excess of that amount are paid at 50% of the unused portion as of December 31 at the employee's pay rate. Upon termination, employees are paid on a prorated basis for unused vacation of that year at their current rates. Upon termination of employment after 10 years of service, or upon retirement or death of an employee, payments will be for 50% of accumulated sick leave for non-union employees and for 100% of accumulated sick leave for union employees who started before July 1, 1997.

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the Library has recorded all liabilities associated with compensated absences. Accumulated vested sick and vacation pay amounts and non-vested sick and vacation pay amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a noncurrent liability in the government-wide financial statements.

11. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Flat River Community Library is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Flat River Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

As of June 30, 2008, the carrying amount and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ 674,358	\$ 688,933
Certificates of deposit	<u>249,707</u>	<u>249,707</u>
TOTAL	<u>\$ 924,065</u>	<u>\$ 938,640</u>

As of June 30, 2008, the Library's deposits were insured by the FDIC for \$283,176, and the amount of \$655,464 was uninsured and uncollateralized.

The cash and cash equivalents reported in the financial statements include \$200 in imprest cash.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2008, the Library did not hold any investments that were subject to rating.

Interest rate risk

The Library has adopted a policy that indicates the Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Library has adopted a policy that indicates the Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Library has adopted a policy that indicates the Library will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty the Library will not be able to recover the value of its investments that are in possession of an outside party, by annually requiring the custodial institution to provide a copy of their most recent report on internal controls.

Flat River Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments caption in the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2008:

Cash and cash equivalents	\$ 757,734
Investments	<u>166,531</u>
	<u>\$ 924,265</u>

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details interfund receivables and payables at June 30, 2008:

Due to General Fund from:	
Capital Projects Fund	\$ 7,391
Nonmajor governmental fund	<u>1,344</u>
	<u>\$ 8,735</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	Restated Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Books, periodicals, and videos	\$ 1,166,108	\$ -	\$(30,144)	\$ 1,135,964
Buildings and additions	3,300,000	-	-	3,300,000
Equipment and furniture	<u>300,180</u>	<u>-</u>	<u>-</u>	<u>300,180</u>
Totals at historical cost	4,766,288	-0-	(30,144)	4,736,144
Less accumulated depreciation for:				
Books, periodicals, and videos	(1,012,818)	(40,280)	30,144	(1,022,954)
Buildings and additions	(701,250)	(82,500)	-	(783,750)
Equipment and furniture	<u>(175,152)</u>	<u>(22,998)</u>	<u>-</u>	<u>(198,150)</u>
Total accumulated depreciation	<u>(1,889,220)</u>	<u>(145,778)</u>	<u>30,144</u>	<u>(2,004,854)</u>
Capital assets, net	<u>\$ 2,877,068</u>	<u>\$(145,778)</u>	<u>\$ -0-</u>	<u>\$ 2,731,290</u>

Flat River Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the Library for the year ended June 30, 2008.

	Balance <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2008</u>	Due Within <u>One Year</u>
1997 General Obligation Bonds	\$ 1,325,000	\$ -	\$ 1,225,000	\$ 100,000	\$ 100,000
2008 Refunding Bonds	-	1,155,000	-	1,155,000	-
Compensated absences	<u>22,718</u>	<u>15,676</u>	<u>13,576</u>	<u>24,818</u>	<u>2,517</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 1,347,718</u>	<u>\$ 1,170,676</u>	<u>\$ 1,238,576</u>	<u>\$ 1,279,818</u>	<u>\$ 102,517</u>

Significant details regarding outstanding long term debt is presented below:

General Obligation Bonds

\$1,800,000 Building and Site Bonds, dated August 1, 1997, due in an annual installment of \$100,000 due May 1, 2009, with interest of 5.00, payable semi-annually. \$ 100,000

\$1,155,000 Building and Site Bonds, dated March 31, 2008, due in annual installments ranging from \$0 to \$145,000 through May 1, 2018, with interest ranging from 3.00 to 4.35 percent, payable semi-annually. 1,155,000

\$ 1,255,000

The annual requirement to pay the debt principal and interest outstanding for the bonds is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 100,000	\$ 110,372	\$ 210,372
2010	115,000	42,908	157,908
2011	115,000	39,458	154,458
2012	120,000	35,893	155,893
2013	125,000	31,933	156,933
2014-2018	<u>680,000</u>	<u>86,983</u>	<u>766,983</u>
	<u>\$ 1,255,000</u>	<u>\$ 347,547</u>	<u>\$ 1,602,547</u>

Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave. The dollar amounts of these vested rights including related payroll taxes, which have been recorded as a liability in the governmental-wide financial statements, amounted to approximately \$24,818 at June 30, 2008.

Flat River Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE E: LONG-TERM DEBT - CONTINUED

Advance Refunding - Current

On March 31, 2008, the Library defeased the portion of the 1997 General Obligation Bonds, which are due and payable May 1, 2010, through May 1, 2018. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The Library issued General Obligation 2008 Refunding Bonds in the amount of \$1,155,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the Library's financial statements. At June 30, 2008, bonds due and payable May 1, 2010, through May 1, 2018, for the 1997 General Obligation Bonds in the amount of \$1,135,000 are considered defeased. The amount transferred to the escrow agent exceeded the amount defeased by \$17,697. Due to the immaterial nature of this amount it was expensed in the current year.

As a result of the advance refunding, the Library increased its total debt service requirements by \$20,000, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$97,597.

NOTE F: FUND BALANCE RESERVES

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the fund balance reserves as of June 30, 2008:

Fund Balances

General Fund	
Reserved for book purchases	\$ 1,295
Reserved for Friends of the Library activity	419
Reserved for compensated absences	<u>16,835</u>
	<u>\$ 18,549</u>
Debt Service Fund	
Reserved for debt service	<u>\$ 169,540</u>

NOTE G: RISK MANAGEMENT

The Library maintains commercial insurance for property, liability, bonding, and casualty losses. The Library also participates in a State Pool, the Michigan Municipal Workers Compensation Fund, with other municipalities for worker's compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Library has not been informed of any special assessments being required.

Flat River Community Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H: ASSETS HELD BY FOUNDATION

In April 2000, the Library entered into an agreement with the Greenville Area Community Foundation (the Foundation) to create the Flat River Community Library Fund (the Fund). In order to establish the Fund, the Library transferred cash to the Foundation in the amount of \$31,000. The purpose of the Fund is to provide funding for grants to the Library from the earnings of the assets in the Fund. The assets of the Fund shall be all those assets contributed to the Fund by the Flat River Community Library Board of Directors and by any other persons or legal entities along with all earnings attributed to such assets.

All earnings attributed to the assets of the Fund will be made available to the Flat River Community Library annually. Any earnings not so distributed will be reinvested in the assets of the Fund. The assets of the Fund may be distributed upon a special request of the Library. The market value of the Fund as of June 30, 2008, is \$64,858. These funds are invested in stocks, bonds, and other short-term securities.

NOTE I: PRIOR PERIOD ADJUSTMENT

The following prior period adjustment was made during the year, which was the result of a correction of an accounting error. This adjustment was reported as a change to beginning fund balance. The effect on operations and other affected balances for the current and prior year are as follows:

	June 30,		
	<u>2008</u>	<u>2007</u>	
Governmental Funds			
General Fund			
Accounts payable	\$ -	\$ 4,778	To correct understated accounts payable
Revenues over (under) expenditures	-	(4,778)	
Fund balance - beginning	(4,778)	-	

NOTE J: RESTATEMENT OF NET ASSETS

Beginning net assets have been restated to reflect corrections of accounting errors. Capital assets had been understated by \$7,205 and accounts payable had been understated by \$4,778. The net adjustment of \$2,427 results in restated net assets as of June 30, 2007, of \$2,485,199.

REQUIRED SUPPLEMENTARY INFORMATION

Flat River Community Library

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budget Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 497,980	\$ 497,980	\$ 532,396	\$ 34,416
Intergovernmental	21,000	21,000	20,210	(790)
Fines and forfeits	119,000	119,000	147,321	28,321
Interest	5,550	5,550	8,468	2,918
Charges for services	200	200	475	275
Other				
Contributions	7,500	14,365	16,443	2,078
Other	2,875	2,875	864	(2,011)
TOTAL REVENUES	654,105	660,970	726,177	65,207
EXPENDITURES				
Current				
Recreation and cultural				
Personnel	328,536	332,431	332,342	89
Supplies	19,120	15,907	15,907	-0-
Building operations	116,100	119,451	119,450	1
Services	29,400	31,140	30,613	527
Cooperative services	28,700	25,675	25,675	-0-
Programming	3,800	3,865	3,718	147
Materials	59,600	66,514	65,280	1,234
Other	16,200	11,825	8,937	2,888
TOTAL EXPENDITURES	601,456	606,808	601,922	4,886
NET CHANGE IN FUND BALANCE	52,649	54,162	124,255	60,321
Fund balance, beginning of year	669,188	669,188	669,188	-0-
Prior period adjustment	-	-	(4,778)	(4,778)
Fund balance, end of year	\$ 721,837	\$ 723,350	\$ 788,665	\$ 55,543

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS**

Members of the Board of Trustees
Flat River Community Library
Greenville, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Flat River Community Library as of and for the year ended June 30, 2008, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated October 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Flat River Community Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

PREPARATION OF FINANCIAL STATEMENTS

Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. This issue was noted and reported in our audit comments last year.

PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with generally accepted accounting principles (GAAP) is based, in part, on its reliance on its external auditors, who cannot, by definition, be considered a part of the government's internal controls.

All Michigan governments are required to prepare financial statements in accordance with GAAP. This is a responsibility of the government's management. The preparation of financial statement in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

We are communicating these circumstances as required by professional standards; however, we do not see a need for any changes in the situation at this time.

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (where applicable), including the notes to the financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls. This issue was noted and reported in our audit comments last year.

Material journal entries for the proper recognition of various aspects throughout the general ledger were proposed by the auditors. These misstatements were not detected by the Library's internal control over financial reporting. These entries included entries to record the activity of the bond refunding in the fund-level financial statements.

Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the Library's internal controls. We recommend that the Library take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiency that are also considered to be material weaknesses. We believe that the significant deficiencies described above as "Material Journal Entries Proposed by Auditors" is a material weakness in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance.

This report is intended solely for the information and use of management and Board of Trustees of the Flat River Community Library, others within the organization, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney P.C.

ABRAHAM & GAFFNEY P.C.
Certified Public Accountants

October 17, 2008